

Audit Update Report

City of York Council

June 2018





CONTENTS

1. Audit update
2. Completion of the 2016/17 audit

This document has been prepared for the sole use of the Audit and Governance Committee of the City of York Council. No responsibility is accepted to any other person in respect of the whole or part of its contents.

1. AUDIT UPDATE

Work on the 2017/18 statement of accounts

We are pleased to report that the Council successfully produced its accounts in line with the earlier deadline, and published these, along with accompanying other information, by the deadline of 31 May.

At the time of drafting this report, our audit of the Council's accounts is at a very early stage. We have:

- Carried out preliminary checks on the draft accounts;
- Updated the materiality levels originally set at the planning stage, which we will confirm to you in our Audit Completion Report;
- Completed initial analytical procedures;
- Selected various transactions and balances on which we will carry out substantive audit procedures.

Given the early stage of our procedures, we have not identified any matters that we wish to bring to the Committee's attention at this time.

2. COMPLETION OF THE 2016/17 AUDIT

Background

Our duty to consider and decide upon objections to the Council's accounts is set out in the Local Audit and Accountability Act 2014, and in doing so we are required to follow the Code of Audit Practice and have regard to guidance issued by the National Audit Office.

As we have previously reported to the Committee, we received and accepted objections to two items of account in the 2016/17 financial statements and have been undertaking work to conclude on these objections. In each case, the local elector asked us to issue a report in the public interest.

Whether or not to issue a report in the public interest is a matter for us in the exercise of our discretion. A public interest report may be appropriate when, for example, the auditor considers it is the most effective way to:

- Ensure a matter is considered by an audited body;
- Ensure a matter is brought to the attention of the public;
- Encourage the audited body to take appropriate action;
- Highlight the failure of an audited body to take action or respond; or
- Express the auditor's view on a matter as an impartial person.

As our work on objections is of a quasi-judicial and statutory nature, we must comply with public law requirements and therefore:

- Adopt a fair and impartial process;
- Consider all relevant considerations and discount irrelevant considerations, when exercising discretion;
- Ensure we have properly understood the relevant law; and
- Ensure our decisions are rational and that adequate reasons are given to explain these decisions.

The two items of account that were objected to were:

1. Whether expenditure in legal advice amounting to £5,000 was justified and appropriately authorised.
2. The reasonableness of the sale price of premises on Tanner Row that the Council disposed of in the year.

Overall decision

In respect of the objections relating to the expenditure on legal services and the disposal of property on Tanner Row, we do not intend to issue a report in the public interest. In both cases we have not identified any matter that would lead us to conclude that a report in the public interest is required.

2. COMPLETION OF THE 2016/17 AUDIT

Legal advice expenditure

We have reviewed the circumstances surrounding the £5,000 expenditure on legal advice from an external legal advisor. In doing so we have considered the process adopted for obtaining the advice, the powers under which the Council incurred the expenditure, and the nature of the advice.

We have been unable to view the advice provided to the Council because it is subject to legal privilege. We have, however, obtained sufficient evidence that the advice was received and discussed the broad nature of the advice with a representative from the external legal advisor to assure ourselves that the Council received the advice that it paid for.

Our findings

1. The Council has the power to incur expenditure for the purpose of seeking legal advice and we have not identified any indications that the Council breached the law in incurring the expenditure.
2. We have not identified any evidence that the Council's procedures for obtaining advice of this nature were not followed.
3. The £5,000 expenditure is a valid item of expenditure recognised in the 2016/17 financial statements.

2. COMPLETION OF THE 2016/17 AUDIT

Disposal of premises on Tanner Row

Background

Given the relatively complex nature of the disposal and the duration between initial negotiations and the eventual sale, we set out a brief summary of the disposal below:

- The Council was approached by Skelwith Group in 2013 in relation to the potential purchase of the Tanner Row site. Their intention was to demolish the existing public conveniences and to seek planning permission to convert the site into three mews houses. At the time of this approach, the Council had planned to spend £113,000 on capital improvements to bring the Tanner Row site up to the required standard.
- Skelwith Group originally offered £20,000 to purchase the freehold of the property which was valued at £223,700 (£189,000 for buildings and £34,000 for land) on the basis of depreciated replacement cost (i.e. the cost that would have to be incurred to replace the service potential of the asset, not market value).
- Subsequent negotiations between officers and Skelwith Group reached a position where the agreed sale price was £75,000 plus an overage amount of £50,000 if the site was developed above the existing 1-storey level. In addition, the Council negotiated a 50-year lease of property, owned by Skelwith Group, on Rougier Street, to re-provide the public conveniences previously part of the Tanner Row site. The lease was to be at peppercorn rent of £1 if demanded.
- Subsequent to the outline agreement being reached between the Council and Skelwith Group for the sale of Tanner Row and the associated lease to the Council on Rougier Street, Skelwith Group sold a property on Rougier Street, to Splendid Hospitality.
- Splendid Hospitality approached officers to purchase the property on Tanner Row on the same terms agreed between the Council and Skelwith Group. The disposal and the associated lease agreement for public convenience provision on Rougier Street was finalised on 10 June 2016.

Our work to decide on this objection involved the review of a significant volume of information relating to all aspects of the disposal and the negotiations between the relevant parties.

Our findings

1. We have not noted any indications that the Council's valuer has applied his professional judgement inappropriately in reaching the conclusion that the agreed sale price was a reasonable approximation of the market value of the property.
2. We have not identified any indications that the accounting treatment adopted for the disposal of the property on Tanner Row was contrary to the requirements of the Code of Practice on Local Authority Accounting.
3. We have noted that the Council's policies and procedures were not followed in full in relation to the disposal of the Tanner Row property.

2. COMPLETION OF THE 2016/17 AUDIT

Identified instance of non-compliance with the Council's policies and procedures

The Council's constitution allows for assets valued at less than £500,000 to be disposed of without the need for Executive decision and approval (Section 4: Rules of Procedures, 4G: Financial Regulations). In these circumstances we would expect an officer decision record to be prepared setting out the details of the decision taken in line with Section 5D of the Constitution.

Despite obtaining evidence that the relevant Chief Officer intended to prepare an officer decision record and had approved the disposal, we have concluded that no such decision record was prepared, in breach of the Council's policies and procedures for a disposal of this nature.

Our recommendations

We recommend that:

1. Chief Officers are reminded of their responsibility to formally record decisions in respect of the disposal of assets under £500,000.
2. Despite the time that has elapsed since the disposal was made, a decision record is entered with respect to the disposal of the Tanner Row property.
3. The Corporate Director: Customer and Corporate Services (the Council's s151 Officer) considers whether further work should be carried out to determine the extent to which the absence of a formal decision record is a more widespread issue.

In addition to these recommendations, we also plan to carry out further work as part of our audit of the 2017/18 financial statements, to consider whether the Council's policies have been followed for a sample of property disposals.

Conclusion

Our work on the objections to the Council's 2016/17 accounts is complete. This also completes our work on the 2016/17 audit and we will issue our completion certificate in due course.

CONTACT

GARETH DAVIES
PARTNER

TOWER BRIDGE HOUSE, ST KATHARINE'S WAY,
LONDON E1W 1DD

T: 020 7063 4310

M: 07979 164 467

gareth.davies@mazars.co.uk

JON LEECE
SENIOR MANAGER

SALVUS HOUSE, AYKLEY HEADS,
DURHAM, DH1 5TS

T: 0191 383 6347

M: 07768 775 477

jon.leece@mazars.co.uk